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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

UNITED STATES OF AMERICA,)	NO. 23-cr-00221 WHO
)	
Plaintiff,)	STATUS REPORT IN RE; Z&L CORPORATE
)	COMPLIANCE PROGRAM
v.)	
)	
Z&L PROPERTIES, INC.,)	
)	
Defendant.)	

I. Introduction

On August 21, 2023, defendant Z&L Properties (hereinafter “Z&L”) pled guilty to one count of Conspiracy to Commit Honest Services Wire Fraud in violation of 18 U.S.C. § 1349. As part of its Plea Agreement, Z&L agreed to develop and implement an anti-corruption corporate compliance program and establish a corporate code of conduct. The company is required to submit annual reports to the government on its progress developing and implementing these compliance programs. At Z&L’s sentencing on October 10, 2023, the Court ordered the government, after it had received Z&L’s first annual report, to file with the Court a status report describing its perspective on Z&L’s compliance, and provide the Court with a copy of the annual report. The government does so here.

1 In short, Z&L has developed and implemented, as it is required to, an anti-corruption and
2 corporate compliance program, including the adoption of written policies and the appointment of a new
3 Director of Compliance. Z&L has provided three substantive anti-corruption and corporate compliance
4 policy training sessions to all its U.S.-based employees, as well as its China-based management. It has
5 also provided anti-corruption training to its Chairman, Zhang Li, and other directors in China.

6 Z&L, however, is in the process of winding down and exiting its U.S. property management
7 business amidst setbacks, losses, and struggles to develop the properties it purchased. The company has
8 already sold three of its eleven properties, has put all of its remaining properties up for sale, including
9 five properties it purchased but was never able to develop. Z&L believes the process of exiting the U.S.
10 market will take time, but states that its business in the United States is largely winding down.

11 II. Procedural Background

12 On May 27, 2021, Z&L Properties Chairman Zhang Li was charged by complaint with
13 Conspiracy to Commit Honest Services Wire Fraud, in violation of 18 U.S.C. § § 1349, 1346, &
14 1343. *United States v. Zhang Li*, 23-CR-0220 WHO (*Dkt. 1*). The Complaint was filed under seal. *Id.*
15 Zhang was arrested in the United Kingdom in November 2022, spent over six months under house arrest
16 in London, and then returned to the United States. On July 18, 2023, Zhang entered into a Deferred
17 Prosecution Agreement with the government. *Id.* (*Dkt. 4*). Zhang admitted that he facilitated at least
18 \$6,500 in bribes to Mohammed Nuru, the former head of the San Francisco Department of Public
19 Works. *Id.* The bribes were intended to help facilitate permitting and building construction approvals
20 for a mixed-use property Z&L was building at 555 Fulton Street in San Francisco. *Id.* The bribes
21 included meals, drinks, hotel accommodations, transportation, and other gifts and benefits for Nuru. *Id.*
22 Following the trip, in text communications with Zhang, Nuru promised to help facilitate building
23 inspection approvals for 555 Fulton Street. *Id.*

24 As part of the resolution of the charges against Zhang, on August 21, 2023, Z&L pled guilty to a
25 one-count Information charging it with Conspiracy to Commit Honest Services Wire Fraud. *Dkt. 4*.
26 The company admitted that it helped facilitate Zhang's bribes to Nuru, bribes intended to benefit Z&L's
27 construction project at 555 Fulton.

On October 10, 2023, defendant Z&L was sentenced. *Dkt. 12*. Pursuant to the terms of the Plea Agreement, the company was fined \$1 million and required to implement a corporate compliance program. *Dkt. 12*. As part of its reporting requirements under the compliance program, Z&L is required to submit annual progress reports to the government. *Id.* At sentencing, the Court ordered that the government submit a copy of Z&L's compliance report to the Court along with its perspective concerning Z&L's compliance. On August 16, 2024, Z&L submitted its first annual compliance program progress report to the government. *See Declaration of David J. Ward in Support of Status Report In Re; Z&L Corporate Compliance Program ("Ward Decl.) Exhibit A* (Z&L Properties Annual Compliance Progress Report). On September 5, 2024, government counsel met and conferred with counsel for Z&L. *Id.* ¶ 2. Following that meeting, counsel for Z&L submitted to the government a supplemental letter addressing questions related to Z&L's compliance program progress report. *Ward Decl., Exhibit B* (Letter from Z&L Counsel, dated September 16, 2024).

III. Z&L Properties Corporate Compliance

a. *Corporate Structure*

Z&L Properties is a U.S. subsidiary of a Chinese real estate and property management conglomerate, King Power Global Company Ltd (HK), wholly owned by Zhang Li and his son, Zhang Liang. *Ward Decl., Ex. A*. At the time of its' guilty plea, Z&L employed 18 individuals, and owned 11 properties in California; five completed or mostly-completed residential, commercial, or mixed use properties, and six other undeveloped properties. *Id.* pg. 4. Z&L states that it has not purchased any new properties since 2017, and that it has no plans to purchase any additional properties in the United States. *Id.* Rather, Z&L states that "its business in the United States is largely winding down." *Ward Decl., Ex. A*, pg. 3. Z&L states that it expects the process to take some time "due to the number of properties under its management and the current real estate market." *Ward Decl., Ex. B*. Z&L has sold three properties; two of its five completed properties, and one undeveloped property. *Id.* Z&L has not begun any work on the five undeveloped properties that it still owns; all are currently for sale. *Id.*

Last year, Z&L transferred management of one of its properties, at 188 West St. James in San Jose, to a newly created entity, Woodford Properties LLC. *Id.* pp. 4-5. Z&L states that it intends to

1 transfer the management of its other U.S.-based properties to Woodford Properties, because Z&L's
2 "criminal conviction has negatively impacted the salability of its properties, the ability to refinance the
3 properties, and execution of HOA contracts." *Ward Decl.*, **Ex. A**. Seven former Z&L employees now
4 work for Woodford Properties, and seven have resigned "due to a lack of business activity." *Id.* pg. 3.
5 Z&L has provided compliance training to all Z&L employees transferred to Woodford Properties. *Id.*

6 *b. Compliance Program*

7 It's in first annual report, Z&L reports that it has developed a new anti-corruption policies and
8 oversight, enhanced an existing compliance program, added additional compliance requirements and
9 oversight, named a new Compliance Officer, and conducted anti-corruption, corporate code of conduct,
10 and whistleblower training for all of its Z&L employees and directors, including Chairman Zhang Li.
11 *Ward Decl.*, **Ex. A**, pg. 8. The training including two sessions for employees conducted in 2023, a
12 separate training for Zhang, and additional training for Zhang and Z&L's U.S.-based employees in the
13 past two months. *Ward Decl.*, **Ex. B**, pp. 14-16.

14 Specifically, in September 2023, outside counsel for Z&L conducted a Code of Conduct and
15 anti-corruption training program for all Z&L employees; 10 attended in person and six by Zoom. *Id.* In
16 December 2023, Z&L outside counsel conducted a separate in-person whistle-blower training program
17 for 14 Z&L employees and two directors. *Id.* Separately, outside counsel for Z&L, provided two
18 compliance training programs, in Mandarin, for Zhang Li, the first in December 2023 and the second in
19 September 2024. *Id.* Z&L conducted a second round of anti-corruption and corporate compliance
20 conduct training for employees at Z&L and Woodford Properties, in September and October 2024. *Id.*

21 In its annual report, Z&L describes the development of its Code of Conduct, a set of written
22 internal controls and compliance policies covering a range of anti-corruption and other workplace
23 policies and controls, including corruption or bribery, whistleblower polices and protections, and
24 conflicts of interest. *Ward Decl.*, **Ex. A**, pg. 6. As part of its compliance program, Z&L states that it
25 has "communicated to all its employees that they must conduct business ethically, honestly, and in
26 compliance with applicable laws and regulations, that this applies to every business decision in every
27 area of ZLP worldwide." *Id.*, pg. 5.

1 IV. Z&L's U.S. Property Development Business

2 a. *Property Sales, Defaults, Undeveloped Projects*

3 Z&L has struggled to profit from its property development projects in the United States. Z&L
 4 transferred ownership of its property at 1554 Market Street in San Francisco in a Deed in Lieu of
 5 Foreclosure, after falling into default on its loan. *Ward Decl.*, **Ex B**, pg. 3. Z&L was unable to develop
 6 five of the other properties it originally purchased for development, including one in San Francisco, two
 7 in San Jose, one in Santa Clara, and one in Los Angeles, and all of those properties are for sale. *Ward*
 8 *Decl.*, **Ex. A**, pg. 4. For one property, dubbed the “Richmond Ranch” property in Santa Clara, Z&L
 9 purchased the property for development for \$25 million in 2017. *Id.* Ex. 05. Z&L sold the property,
 10 undeveloped, in October 2023 for \$16 million. *Id.* Z&L states that the scaling down of its U.S. business
 11 “is largely due to the fact . . . that properties it purchased pre-pandemic and pre-interest rate increases are
 12 no longer economically feasible to develop.” *Id.* pg. 3.

13 b. *188 West St. James Litigation*

14 While not related to its criminal conviction, Z&L remains in litigation with a homeowners
 15 association representing owners of some of the units in the property at 188 West St. James in San Jose.
 16 In that litigation, a Santa Clara Superior Court last month found Z&L liable for breach of its corporate
 17 fiduciary duties and abuse of authority or discretion, in violation of California Corp. Code § 7223. *See*
 18 *FPP MB, LLC v. Jennifer Lewis et. al*, Case No. 24CV433325, Santa Clara Superior Court (September
 19 16, 2024 Order). The plaintiffs in that litigation moved to remove Z&L directors from the homeowner’s
 20 association board, alleging that Z&L had misused association dues, had improperly withheld association
 21 assessment payments, and this failure to pay assessments had resulted in the association’s inability to
 22 provide adequate safety and security at the property. *Id.* The Santa Clara Court agreed in part, ruling
 23 that Z&L’s withholding of its assessments and the failure to address safety and security issues were a
 24 breach of its fiduciary duties and an abuse of discretion. *Id.* The Court ordered Z&L to pay \$1,000,000,
 25 held in escrow, to cover past due assessments, and ordered Z&L to vacate one of its association board
 26 seats, effectively giving control of the board to the plaintiffs. *Id.* Z&L, which has failed to find buyers
 27 for many of the units at 188 West St. James, has put the property up for sale. *Id.*, *Ward Decl.*, **Ex. B**.

1 V. Analysis and Perspective

2 Based on its review of Z&L's compliance report, its subsequent supplemental letter, supporting
3 documentation, along with discussions with Z&L counsel, the government believes that the company
4 has demonstrated that it has developed an anti-corruption and corporate compliance program that is
5 sufficient to meet its requirements under the terms of the Corporate Compliance Program.

6 Z&L has developed and communicated to all of its employees specific anti-corruption and
7 bribery rules, laws and requirements, and has provided training to its U.S.-based employees on other
8 corporate compliance and workplace conduct standards and requirements. Z&L has conducted three
9 separate training programs, two in 2023, and one last month, for all of its U.S.-based employees. Z&L
10 has provided similar training sessions to its China-based directors and its chairman, Zhang. The
11 company has appointed a Director of Compliance, who was named a director of Z&L and will be named
12 as a director of Woodford Properties. *Ward Decl.*, **Ex. B** She has attended training sessions both in the
13 United States and China. *Id.* These are all tangible steps intended to demonstrate to all Z&L
14 employees, including its China-based directors and its chairman, that its employees must comply with
15 all anti-corruption laws and regulations.

16 The government is concerned about the finding of the Santa Clara Superior Court that Z&L's
17 failure to pay its assessments has led to safety and security issues at the West St. James property, and the
18 Court's ruling that this was an abuse of authority and a breach of fiduciary duty. In this regard, Z&L has
19 failed to live up to the commitment in its Code of Conduct that it "conduct business ethically, honestly,
20 and in compliance with applicable laws and regulations." In the government's view, future serious
21 disregard of this commitment would run counter to the agreement it has made in its Corporate
22 Compliance Program in its Plea Agreement.

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1 VI. Conclusion

2 Z&L Properties has committed itself to adopting anti-corruption policies and practices, and insure
3 that all of its employees adhere to these requirements. The company has sufficiently done so, even as it
4 exits the U.S. property development business amidst losses, defaults, and financial struggles. The
5 government will continue to monitor the company's compliance, and if so ordered, will provide updates
6 to the Court.

7
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9
10 /s/ David Ward
11 DAVID J. WARD
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